

# I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange hereby amends Rule 8.14 regarding the imposition of fines for minor violations. The text of the proposed rule change is as follows (new text is italicized; deleted text is bracketed):

Rule 8.14 Imposition of Fines for Minor Violation(s) of Rule Interpretations and Policies: .01

(d) Rule 4.1, *Rule 4.2* and Interpretation, thereunder, requiring the submission of responses to Exchange requests for trading data within specified time period.

## II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the CSE included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The CSE has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

#### 1. Purpose

Rule 8.14<sup>2</sup> authorizes the Exchange, in lieu of commencing a disciplinary proceeding before a hearing panel, to impose a fine not to exceed \$2,500, on any member, member organizations, or registered or non-registered employee of a member organization for a minor violation of certain specified Exchange rules.<sup>3</sup>

The purpose of the Rule 8.14 procedure is to improve the Exchange's ability to efficiently meet its statutory enforcement responsibilities by

establishing a program for the imposition of fines for minor violations of Exchange Rules and by designating certain specified Rule violations as minor Rule violations.<sup>4</sup> In File No. SR-CSE-88-1,<sup>5</sup> which initially set forth the provisions and procedures of Rule 8.14, the Exchange indicated that it would periodically prepare and announce to its members and member organizations a revised list of Exchange Rules for violation of which the Exchange may impose fines pursuant to Rule 8.14, as well as the fines that may be imposed for such violation.

The Exchange is presently adding Rule 4.2<sup>6</sup> to the list of rules subject to possible imposition of fines under Rule 8.14 procedures. The purpose of the proposed Rule Change is to clarify that Exchange Rule 4.2 is a part of the Exchange's Minor Rule Violation Rule. Exchange Rule 4.2 deals with the furnishing of information to the Exchange upon request. Rule 4.2 is not currently included in the specific list of Rules to which the Minor Rule Plan applies, however, the text listed under Rule 4.1 which is noted therein, addresses the requirements of Rule 4.2 as well as Rule 4.1. The Exchange believes that the specific inclusion of Rule 4.2 will make it clear to members that the Minor Rule Plan provisions apply to it.

#### 2. Statutory Basis

The proposed rule change is consistent with Section 6(b)(6) of the Act<sup>7</sup> in that it will provide a procedure whereby member organizations can be "appropriately disciplined" in those instances when a rule violation is minor in nature, but a sanction more serious than a warning or cautionary letter is appropriate. The rule change provides a fair procedure for imposing such sanctions, in accordance with the requirements of Sections 6(b)(7) and 6(d)(1) of the Act.<sup>8</sup>

### B. Self-Regulatory Organization's Statement on Burden on Competition

The CSE does not believe that the proposed rule change will impose any inappropriate burden on competition.

### C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

No written comments were either solicited or received.

## III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the publication of this notice in the Federal Register or within such other period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. § 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street NW., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-CSE-95-09 and should be submitted by December 29, 1995.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Margaret H. McFarland,  
Deputy Secretary.

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<sup>2</sup>Rule 8.14 was approved by the Commission on September 1, 1988. See Securities Exchange Act Release No. 26053 (September 1, 1988), 53 FR 34851 (September 8, 1988) (order approving File No. SR-CSE-88-1). A subsequent addition of a rule to the Rule 8.14 Violations List was made in Securities Exchange Act Release No. 27609 (January 11, 1990), 55 FR 1758 (January 18, 1990) (order approving File No. SR-CSE-89-6).

<sup>3</sup>CSE Rule 8.14, entitled Imposition of Fines for Minor Violation(s) of Rules, contains a list of minor rule violations as to which the Exchange may impose such fines. Although the CSE's Board of Trustees makes the initial determination of whether a CSE rule violation is "minor" for purposes of CSE Rule 8.14, this determination is subject to Commission approval pursuant to Section 19(d)(1) of the Act and paragraph (c)(2) of Rule 19d-1 under the Act. See Release No. 26053 n.5, *supra* note 2.

<sup>4</sup>*Id.*

<sup>5</sup>*Id.*

<sup>6</sup>CSE rule 4.2 provides that "every member shall furnish to the Exchange, upon request and in a time and manner required by the Exchange, current copies of any financial information filed with the Commission, as well as any records, files or financial information pertaining to transactions executed on or through the Exchange. Further, the Exchange shall be allowed access, at any time, to the books and records of the member in order to obtain or verify information related to transactions executed on or through the Exchange or activities relating to the Exchange."

<sup>7</sup>15 U.S.C. 78f(b)(6).

<sup>8</sup>15 U.S.C. 78f(b)(7) and 78f(d)(1).

[Release No. 34-36540; File No. SR-MBS-95-09]

**Self-Regulatory Organizations; MBS Clearing Corporation; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Requesting Permanent Approval of the Electronic Pool Notification Service**

November 30, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on November 3, 1995, the MBS Clearing Corporation ("MBS") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-MBS-95-09) as described in Items I and II below, which Items have been prepared primarily by MBS. The Commission is publishing this notice and order to solicit comments from interested persons and to grant accelerated approval of the proposed rule change.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule change requests permanent approval of the rules that set forth and establish the Electronic Pool Notification ("EPN") service. The Commission previously approved on a temporary basis through November 30, 1995, a proposed rule change that added Articles VI, VII, VIII, IX, and X to MBS's rules to establish the EPN service.<sup>2</sup>

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, MBS included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. Summaries of the most significant aspects of such statements are set forth in sections A, B, and C below.<sup>3</sup>

**A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change**

The purpose of the proposed rule change is to request permanent approval of the rules that set forth and establish

the EPN service. EPN was developed by MBS in response to a Public Securities Association ("PSA") initiative to automate the pool notification process with the ultimate goal of supplementing and/or replacing the manually intensive telephone and fax environment. EPN is an electronic, post-trade communication system for mortgage-backed securities.<sup>4</sup> EPN provides an electronic communications network through which EPN users can quickly and efficiently transmit mortgage-backed securities pool allocation information regarding deliveries of securities for settlement. EPN was designed for use by organizations actively engaged in the allocation and notification process associated with mortgage-backed securities and derivative securities. EPN user firms may be acting as principal to the underlying trade activity or as agent on behalf of another EPN user in a fully disclosed capacity.<sup>5</sup>

An EPN message will be required to contain (1) the lot sequence of "good delivery millions" (i.e., the number of million dollar lots delivered in accordance with PSA guidelines), (2) a pool number that references a specific pool of mortgages, (3) the principal amount at date of issue, (4) the coupon rate, and (5) a termination code. In addition, an EPN message may contain, among other things, additional information such as the maturity date, CUSIP number, current outstanding principal amount, an MBS trade number, internal control number, and interest accrued.

MBS decided that a complete stand-alone set of rules for EPN was preferable to trying to integrate the EPN rules into existing MBS rules. As a result, many of the EPN rules mirror the language of existing MBS rules in order to make the provisions of those rules applicable to the EPN service. There has been an attempt to use the same terms and definitions that MBS uses in its current rules wherever possible. However, the EPN rules do differ from existing MBS rules in several respects. The EPN rules define new terms specifically related to EPN. Another change from existing MBS

rules concerns who can become an EPN user. Because EPN is essentially a sophisticated e-mail/database system that does not involve traditional clearance or settlement functions, the risk to MBS from defaulting EPN users is limited to nonpayment of fees. As a result, the standards for applicants to become EPN users are significantly less demanding than the standards for applicants that wish to become full participants of MBS. It is anticipated that some applicants that do not qualify as full participants of MBS will still qualify to become EPN users. The EPN rules also provide for an EPN user fund. The EPN user fund will be similar in purpose to the existing MBS participants fund, but because the risk to MBS is limited to nonpayment of fees, the EPN user fund will be smaller.

MBS believes that the proposed rule change is consistent with Section 17A(b)(3)(F) of the Act<sup>6</sup> and the rules and regulations thereunder because it facilitates the prompt and accurate clearance and settlement of securities transactions.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

MBS does not believe that the proposed rule change will have an impact or impose any burden on competition.

**C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Other**

No written comments relating to the proposed rule change have been solicited or received. MBS will notify the Commission of any written comments received by MBS.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Section 17A(b)(3)(F) of the Act<sup>7</sup> requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions. The Commission believes that MBS's proposal to establish the EPN service on a permanent basis is consistent with this obligation.

One reason the Commission previously approved the EPN service only on a temporary basis was EPN's lack of a disaster recovery program. During the temporary approval period, MBS established and thoroughly tested the EPN service's disaster recovery program. Because the EPN disaster

<sup>1</sup> 15 U.S.C. § 78s(b)(1) (1988).

<sup>2</sup> Securities Exchange Act Release No. 35009 (November 25, 1994), 59 FR 61913 [File No. SR-MBS-94-02] (order temporarily approving proposed rule change).

<sup>3</sup> The Commission has modified the text of the summaries prepared by MBS.

<sup>4</sup> The number of securities eligible for the EPN service will be greater than those eligible for the comparison and clearing service at MBS. All mortgage-backed securities eligible for comparison and clearing at MBS will be eligible for the EPN service. In addition, securities which are not eligible for comparison and clearing because of lack of volume or inability to be valued will be eligible for the EPN service.

<sup>5</sup> MBS commenced the EPN service on a pilot basis in February 1995. During September 1995, EPN users processed 6,936 messages comprised of 56,224 pools with a current face value of approximately \$58 billion. Currently there are fourteen EPN users.

<sup>6</sup> 15 U.S.C. § 78q-1(b)(3)(F) (1988).

<sup>7</sup> 15 U.S.C. 78q-1(b)(3)(F) (1988).

recovery program has operated successfully during its testing, MBS has decided to request permanent approval of the EPN service.

Prior to the establishment of the EPN service, participants in the mortgage-backed securities market had to manually telephone or fax pool information to other participants. Historically, billions of dollars of fails occurred because sellers were not able to communicate with buyers because of telephone and fax limitations (e.g., busy signals preventing the exchange of information). The Commission is permanently approving the rules for the EPN service because it believes that replacing a manually intensive communication system with an electronic communication system should help to significantly reduce the number of fails in the mortgage-backed securities market by making the notification process more efficient and more reliable. Furthermore, MBS has demonstrated that the disaster recovery program for the EPN service is capable of ensuring the continuity of critical EPN business operations in the event the primary computer operations become unavailable to EPN users.<sup>8</sup>

MBS has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of the filing. The temporary approval period for the EPN service will expire on November 30, 1995. The Commission finds good cause to grant accelerated approval of the proposal because the EPN service has operated successfully since its implementation and because the Commission did not receive any comment letters during the comment period before it granted temporary approval or during the temporary approval period and because the Commission does not expect to receive any during the current comment period. Furthermore, accelerated approval will allow the EPN service to continue operating without interruption.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange

Commission, 450 Fifth Street NW., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street NW., Washington, D.C. 20549. Copies of such filing will also be available for inspection and copying at the principal office of MBS. All submissions should refer to file number SR-MBS-95-09 and should be submitted by December 29, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-MBS-95-09) be and hereby is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>9</sup>

Margaret H. McFarland,  
Deputy Secretary.

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[Release No. 34-36547; File No. SR-NSCC-95-15]

#### **Self-Regulatory Organizations; National Securities Clearing Corporation; Notice of Filing of a Proposed Rule Change Regarding Arrangements Between the National Securities Clearing Corporation and Chicago Stock Exchange, Incorporated Relating to a Decision by Chicago Stock Exchange, Incorporated to Withdraw From the Clearance and Settlement, Securities Depository, and Branch Receive Businesses**

December 1, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on November 24, 1995, the National Securities Clearing Corporation ("NSCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change (File No. SR-NSCC-95-15) as described in Items I, II, and III below, which items have been prepared primarily by NSCC. The Commission is publishing this notice to

solicit comments on the proposed rule change from interested persons.

#### **I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule change involves proposed arrangements relating to a decision by the Chicago Stock Exchange, Incorporated ("CHX") to withdraw from the clearance and settlement, securities depository, and branch receive businesses. Parties to the proposed arrangements are The Depository Trust Company ("DTC"), CHX, Midwest Securities Trust Company ("MSTC"), NSCC, Midwest Clearing Corporation ("MCC") and Securities Trust Company of New Jersey ("STC/NJ").<sup>2</sup>

#### **II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, NSCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. NSCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.<sup>3</sup>

#### **(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

CHX has announced that it is closing its clearance and settlement and securities depository facilities in order to focus its resources on the operations of the exchange. CHX has determined to take this step in response to recommendations by industry users to eliminate redundant facilities and thereby reduce the costs of processing securities transactions. The proposed arrangements will assist in achieving these objectives while affording qualified sole MCC participants an opportunity to become NSCC participants and transfer their continuous net settlement positions to NSCC. NSCC's primary purpose for entering into the proposed arrangements at this time is to facilitate the industry's planned conversion to same-day funds

<sup>8</sup> On September 27, 1995, staff of the Division of Market Regulation met with MBS to discuss the disaster recovery program developed for the EPN service. The staff also reviewed and assessed documentation related to the management and operation of the disaster recovery system and conducted an examination of the primary data center.

<sup>9</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>1</sup> 15 U.S.C. 78s(b)(1) (1988).

<sup>2</sup> STC/NJ is a subsidiary of CHX that currently provides certain services, including a securities custody service. STC/NJ is not a clearing agency as defined in the Act and therefore is not required to register with the Commission.

<sup>3</sup> The Commission has modified the text of the summaries prepared by NSCC.